

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$4,134,600 or 2.55% in the year 2011, by \$33,105,800 or 19.68% in the year 2012, by \$9,897,200 or 4.92% in the year 2013, and by \$10,874,600 or 5.16% in the year 2014.

A.10-07-007
(Filed July 1, 2010)

**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES TO
THE APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY
TO INCREASE REVENUES IN ALL OF ITS CALIFORNIA DISTRICTS**

I. INTRODUCTION

Pursuant to Rule 2.6 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), the Division of Ratepayer Advocates ("DRA") files this protest to Application ("A.") 10-07-007 of "California-American Water Company ("Cal Am") for authority to increase its revenues for water service all of its California districts ("Application"). The application raises several areas of concern that merit further investigation by the Commission. Therefore, DRA recommends that the Commission schedule both evidentiary and public participation hearings for this proceeding.

II. APPLICATION

If approved, this Application would provide a 40.7% increase in Operating Revenues. That is, when compared to the Operating Revenues reported by the Utility in its Statement of Operations¹ dated December 31, 2009, California American is seeking an additional \$58,012,000 above current rates over the rate case period, which is a 40.7% increase.

¹ See Direct Testimony of Jeffrey Linam

A. Coronado District

For this district, Cal-Am requests a change in revenues in the following amounts:

(1) an increase of \$1,846,500 or 10.58% in 2011;² (2) an increase of \$1,996,400 or 10.34% in 2012; (3) an increase of \$900,700 or 4.23% in 2013; and (4) an increase of \$648,200 or 2.92% in 2014.

B. Larkfield District

In this district, Cal-Am requests a change in revenues in the current rate design in the following amounts: (1) an increase of \$974,100 or 36.99% in 2012; (2) an increase of \$69,500 or 1.92% in 2013; and (3) an increase of \$155,300 or 4.19% in 2014.

C. Los Angeles County District

In this district, Cal-Am requests a change in revenues in the following amounts:

(1) an increase of \$5,367,000 or 21.90% in 2012; (2) an increase of \$1,652,000 or 5.53% in 2013; and (3) an increase of \$1,788,600 or 5.67% in 2014

D. Monterey County District

In this district, Cal-Am requests a change in revenues in the following amounts:

(1) an increase of \$11,948,700 or 27.60% in 2012; (2) an increase of \$1,612,000 or 2.94% in 2013; and (3) an increase of \$2,503,800 or 4.48% in 2014.

E. Monterey Wastewater District

In this district, Cal-Am requests a change in revenues in the following amounts:

(1) an increase of \$511,700 or 16.16% in 2012; (2) an increase of \$70,900 or 1.92% in 2013; and (3) an increase of \$153,700 or 4.05% in 2014.

² D.07-05-062 Section III.A.1 provides an exception to the three year rate case cycle for companies experiencing a delay in recovery longer than three years under the new RCP regulations. In particular, the decision states that companies may seek interim rate adjustments limited to the rate of inflation via advice letter. In this sole case, DRA recognizes that Cal Am seeks rate adjustments under this exception for Coronado and Village Districts beginning 2011, while all other Districts are on the normal GRC track by seeking rate increases beginning 2012.

F. Sacramento District

In this district, Cal-Am requests a change in revenues in the current rate design in the following amounts: (1) an increase of \$10,078,500 or 22.83% in 2012; (2) an increase of \$3,647,700 or 6.73% in 2013; and (3) an increase of \$4,101,800 or 7.09% in 2014.

G. Toro District

In this district, Cal-Am requests a change in revenues in the following amounts: (1) an increase of \$407,900 or 97.48% in 2012; (2) an increase of \$45,000 or 5.45% in 2013; and (3) an increase of \$70,100 or 8.04% in 2014.

H. Village District

In this district, Cal-Am requests a change in revenues in the following amounts: (1) an increase of \$2,288,100 or 8.08% in 2011;³ (2) an increase of \$1,821,500 or 5.92% in 2012; and (3) an increase of \$1,899,400 or 5.81% in 2013; and (4) \$1,453,100 or 4.18% in 2014.

III. ISSUES

DRA is concerned with the sheer magnitude of the rate increases Cal Am has proposed. With a cumulative rate increase across the period of 40.7%, Cal Am's proposed rate increases are far higher than the forecasted composite inflation rate for 2012 which is presently 2.94%. In light of the poor state of the economy, California's increasing unemployment rate, and the reality that Cal Am's last rate increases for Larkfield, Los Angeles, and Sacramento were authorized June 24, 2010,⁴ the proposed rate increases will impose unacceptable rate shock upon Cal Am's customers.

DRA plans to examine whether Cal Am has provided sufficient justification for the revenues and expenses that it requests in its rate increase application. Although it is unclear at this juncture which aspects of Cal Am's Application will be contentious, Cal Am's increases in proposed plant and plant-related items will have a significant effect on

³ The footnote explaining Coronado District's proposed 2011 rates applies to Village District's proposed 2011 rates as well.

⁴ See D.10.06-038.

revenue requirements and merit close examination. Furthermore, DRA is concerned with the level of planned capital investment, the regulatory commission expenses, other administrative and general expenses, and the dramatic cost increases requested for expenses allocated from the American Water Service Company⁵ (“general office expenses”).

In particular, DRA will focus on the following aspects of general office expenses. First, DRA will carefully analyze Cal Am’s claim to ensure that Cal Am only pays a fair portion of the services provided to it by AWSC.⁶ Specifically, Cal Am proposes a 31% increase, or \$3.3 million, over the \$10.5 million in costs authorized for such services in D.10-06-003. Second, in light of the fact that AWSC has reorganized the structure of its operations from regions of the country to specific states, DRA will evaluate whether the allocation of costs from AWSC to Cal Am is reasonable.

While DRA is still in the process of reviewing Cal Am’s application, it has identified several issues that it intends to review and address, as necessary, in evidentiary hearings. Potentially contentious issues identified by Cal Am include: 1) consumption estimates not based on regression analysis (water use per customer using a decreased level of consumption from historical patterns); 2) non-revenue water⁷ measurement; 3) rate of return on deferred balances over short term borrowing limits, rate of return on advice letter capital projects, and annual amortization of balancing accounts; 4) Walerga Tank capital project; and 5) Toro Acquisition Goodwill; California Water Association dues.⁸

In addition to the potentially contentious issues identified by Cal Am, DRA is concerned with the usual issues reviewed by DRA in rate case proceedings. These issues

⁵ American Water Service Company shall be called “AWSC”.

⁶ Direct Testimony of David P. Stephenson, Page 96 refers to, “allocation factors such as the Tier 1 factor”, which further describes this concept.

⁷ Non-revenue water is defined in the RCP and the American Water Works Association guidance.

⁸ Application of California-American Water Company To Increase Revenues in Each of its Districts Statewide, dated July 1, 2010, at p. 19-23.

include, but are not limited to: Cal Am's forecast of sales and operating revenue, estimated Operations and Maintenance ("O&M") and Administrative and General ("A&G") expenses, investment in utility plant and depreciation, proposed rate design, and customer service and service quality.

DRA is particularly concerned with the methods Cal Am used to forecast overtime estimates, the forecasted increases for regulatory expenses, as well as the magnitude of the forecasted increase to pensions and benefits. Moreover, DRA will evaluate whether Cal Am's proposed significant escalation of group insurance rates to the industry trend of 8.2% is reasonable. DRA is concerned that Cal Am makes an unfair, unreasonable, and overly aggressive request to increase interest rates for its regulatory assets, which do not comport with the Commission Standard Practice U-27 related to the interest earned on such assets.

DRA believes the Commission should exclude Cal Am's request to recover the cost to construct the Lower Carmel Valley well² from the scope of this proceeding, because the Commission already denied Cal-Am recovery of the cost to construct the Lower Carmel Valley well last year during Cal Am's Monterey District GRC.¹⁰ Upon further review, DRA may recommend that other Cal Am requests be excluded from this proceeding if it discovers the Commission has already decided upon them.

Other items of interest to DRA during this proceeding include the following:

- Is Cal Am's claim that it is under financial stress valid? Are Cal Am's special requests targeted specifically toward improving Cal Am's financial condition appropriate or justified?
- Has Cal Am carefully addressed the Monterey District and other Districts' Conservation Program requests?
- Is the method of forecasting and recovery of regulatory expenses used in this proceeding consistent with Commission policies?

² Id.

¹⁰ See D.09-07-021.

- How has Cal Am handled its low-income programs?
- Has Cal Am properly accounted for and justified its expenses necessary to implement the State Water Resources Control Board (“SWRCB”) Cease and Desist Order (“CDO”)?
- Should Cal Am’s request for memorandum account treatment of expenditures incurred by offering a Low Income Rate Assistance program in its Monterey District be addressed during Phase III of A.04-09-019?
- Is Cal Am effectively using a cooperative Integrated Water Resource Management Program (“IRWMP”) approach in its planning efforts?
- Is Cal Am’s request for additional employees warranted?

Cal Am makes thirty-six Special Requests in its Application. The types of requests could be grouped as follows:

- Four Special Requests would each establish a new respective memorandum account for health care, low income program participation, change in Public health goal/MCL for chromium and change in cross connection programs.

- Four Special Requests deviate from the typical Commission practices set forth in Water Division standard practices related to interest rates earned on regulatory assets. Three of the requests propose to change the interest rate to the authorized rate of return, which is not prescribed by the Standard Practices. One of the requests is that projects filed for recovery by Advice letter should also earn rate of return, which is also not prescribed by the Standard Practices.

- Eleven requests seek recovery of various types of expenses, and about five of these requests may fit the definition of retroactive ratemaking because they involve recovery of expenditures that were already incurred by Cal Am to replace a Lower Carmel Valley Well that was rejected in the last rate case, recovery of costs of Toro Arsenic Treatment Plant above the commitment from the Cal Am President, and costs for a main break in Ventura County.

- Ten or more special requests involve proposed tariff changes or rate design related changes by specifically adding, deleting or modifying existing tariffs related to

public fire hydrants, charging for fire flow tests, retiring an old irrigation system, or converting from bi-monthly to monthly meter reading. Several of the rate design related requests involve instituting inclining block rate tariffs or implementing a new water revenue adjustment mechanism (“WRAM”), modified cost balancing account (“MCBA”), or realigning tariffs (consolidating rate areas).

The Special Requests are itemized below. DRA will carefully evaluate whether each one is appropriate and in the public interest. DRA is also concerned about the sheer volume of these Special Requests since they are being submitted as part of an unprecedented application that covers all of Cal Am’s districts. DRA faces sufficient challenges in effectively reviewing a GRC application of this size without being required to address 36 Special Requests. The cumulative effect of all of these additional requests is tantamount to another distinct application that has been amalgamated into this GRC.

Special Request #1: California American Water requests authorization to change to monthly meter reading in the Larkfield, Los Angeles County, Sacramento, and San Diego County Districts.

Special Request #2: California American Water is requesting two distinct tariff areas for water service in its Monterey County District and two distinct tariff areas for wastewater service in its Monterey Wastewater District.

Special Request #3: California American Water requests the authorization to rename its districts. The following changes are proposed: Coronado District to San Diego County District, Los Angeles District to Los Angeles County District, Monterey District to Monterey County District, and Village District to the Ventura County District.

Special Request #4: California American Water requests that the Commission allow it to earn at its return on equity or equivalent interest rate on all deferred items when it has balances in excess of our short-term debt limit.

Special Request #5: California American Water requests that the Commission authorize a WRAM and MCBA for the Sacramento District as part of its decision on the revenue requirement in this case.

Special Request #6: California American Water requests that the Commission authorize it to continue all previously authorized WRAMs and MCBAAs under the terms of the pilot programs the Commission authorized in various previous decisions.

Special Request #7: California American Water requests that the Commission recognize the capital expenditure associated with the Lower Carmel Valley Well investment project in rate base and allow California American Water to recover it in rates.

Special Request #8: California American Water requests that the Commission allow it to include as part of rate base all unreimbursed costs related to a major main break in the Ventura County District.

Special Request #9: California American Water requests that the Commission discontinue its current authorized pilot Distribution System Improvement Charge (“DSIC”) program in Los Angeles.

Special Request #10: California American Water requests Commission authorization to establish permanent water use restrictions and an inclining block tariff for water service to irrigation customers in the Duarte service area of the Los Angeles County District.

Special Request #11: California American Water requests that the Commission authorize a balancing account to track all revenue requirement variations due to changed timing or expended costs of the Business Transformation program.

Special Request #12: California American Water requests authorization from the Commission to eliminate the Public Fire Hydrant tariff that is now effective for the Toro service area of the Monterey County District.

Special Request #13: California American Water requests permission to file plans on all items where it is out of compliance with General Order 103A.

Special Request #14: California American Water requests the actions for things such as recovering balances in memorandum accounts and balancing accounts. These actions are specified in Exhibit B to this Application.

Special Request #15: California American Water requests that the Commission should base all revenue requirement calculations on a volumetric allowance for non-revenue water, not percentages.

Special Request #16: California American Water requests permission to establish a memorandum account for potential compliance costs related to Public Health Goals and Maximum Contaminant Levels for treatment of Chromium 6.

Special Request #17: California American Water requests the authority to open a memorandum account should new cross-connection requirements be enacted.

Special Request #18: California American Water requests that all contamination proceeds should remain on its books until the Commission issues a final decision in R.09-03-014.

Special Request #19: California American Water requests recovery of costs related to the Toro Arsenic Treatment Plant that are not recovered through an advice letter.

Special Request #20: California American Water requests authorization to recover all depreciation study costs over a six-year period beginning in January 2012.

Special Request #21: If the Commission authorizes an audit of AWSC costs, California American Water requests permission to implement a surcharge to recover the costs of the audit.

Special Request #22: California American Water requests permission to recover the remaining six months of unamortized rate case costs for the Sacramento and Larkfield Districts as part of the total rate case cost recovery in this application.

Special Request #23: California American Water requests permission to retire the Bradbury Irrigation System during the period from 2015-2017.

Special Request #24: California American Water requests recovery of all costs related to the Toro Goodwill acquisition above the book value of the purchased assets in accordance with Public Utilities Code §§ 2718-2720.

Special Request #25: California American Water requests a tariff for fire flow testing.

Special Request #26: California American Water requests establishment of a permanent revenue requirement schedule for the recovery of and return on the Citizens Acquisition Premium.

Special Request #27: California American Water requests the authority to update annually its Depreciation Studies.

Special Request #28: California American Water requests that the Commission clarify that all purchased water costs, including those costs that the supplier may consider paid for at "penalty" rates, be included as part of the MCBA.

Special Request #29: California American Water is seeking Commission recognition of supply limitations placed on California American Water's service to customers in its Ventura County District, and the charges placed on water purchases above the prescribed level. To address the increased fees for water purchases, California American Water will be proposing conservation rates on all classes of customers, as well as a multi-block rate structure for residential customers.

Special Request #30: As part of the rate design proposal in this proceeding, California American Water will request that the Commission authorize it to implement an inclining block rate design for Bradbury irrigation customers in the Duarte Service area of California American Water's Los Angeles District.

Special Request #31 : California American Water requests the elimination of the Dry Creek Special Facilities Area in Sacramento District and the inclusion of all capital expenditures for the Walerga Tank capital project, less the total special facilities fees collected, as part of rate base. California American Water also requests that the Commission authorize a new Special Facility Fee for all of Placer County.

Special Request #32: California American Water requests that the Commission allow full recovery of all costs incurred to modify the ORCOM billing system to accommodate the new rate design in the Monterey County District.

Special Request #33: California American Water requests that the Commission allow it to earn its authorized rate of return or equivalent interest rate on all advice letter projects that are not included in rate base, until such time that they are included in rate base and the Commission has authorized the return on and recovery of the investment in rates.

Special Request #34: California American Water requests that the Commission authorize the annual recovery of all balancing and memorandum accounts as previously authorized for gas utilities.

Special Request #35: California American Water requests that the Commission authorize a new memorandum account to track all cost related to changes in health care as a result of national health care reforms.

Special Request #36: California American Water requests that the Commission authorize the establishment of a low-income memorandum account for the Monterey County District.

V. CATEGORIZATION AND PROPOSED SCHEDULE

DRA agrees with Cal-Am's proposed categorization of this proceeding as ratesetting and that evidentiary hearings may be necessary to resolve these and other issues raised in Cal-Am's application. Multiple public participation hearings in the affected districts may also be necessary and DRA urges that such hearings be scheduled in advance of December 2010 to ensure that customers have the opportunity to communicate their concerns to the Commission and DRA in advance of DRA's testimony deadlines. Therefore, DRA requests that a prehearing conference be held to establish a schedule for this proceeding.

Below is DRA's proposed schedule for this proceeding based on the Rate Case Plan ("RCP") for Class A Water Utilities adopted in D.07-05-062. DRA's proposed schedule requests several changes from the schedule prescribed by the Rate Case Plan ("RCP"). These changes are explained in the next paragraph. Moreover, DRA's schedule accounts for deadlines that fall on weekends or holidays.

DRA has proposed several variations from the schedule prescribed by the RCP. First, DRA recommends that the rate design issues be scheduled as a separate phase of this proceeding immediately following the revenue requirement. DRA will endeavor to coordinate with other parties in advance of the PHC so that we can propose a schedule for this phase of the proceeding at the PHC. Second, DRA recommends expanding the amount of time available for Settlement Negotiations and Preparing the Settlement Document. The parties estimate that based on experience with A.09-01-013, and the experience of Cal Water during its all district GRC (A.09-07-001), that A.10-07-007 may require more time than allowed in the existing Rate Case Plan schedule to negotiate and document the settlement. DRA raises this as a topic for discussion and resolution at the PHC.

	A.10-07-007	
	CALIFORNIA-AMERICAN WATER COMPANY	
	STATEWIDE ALL DISTRICT GRC	
20 Month Schedule	EVENT	DATE
Day		
-60	Proposed Application Tendered	5/2/2010
-30	Deficiency Letter Mailed	6/1/2010
-25	Appeal to Executive Director	6/6/2010
-20	Executive Director Acts	6/11/2010
0	Application Filed	7/1/2010
10	Pre-hearing Conference held before Day 75	7/12/2010
75	Last possible scheduled date for PHC	9/14/2010
100	Update of Utility Showing	10/11/2010
10-190	Public Participation Hearings	By 1/7/2010
204	DRA distributes its Reports	1/21/2011
264	Utility distributes Rebuttal	3/22/2011
270	Settlement Discussions Start	3/28/2011
290	Settlement Discussions End	4/18/2011
290	Hearings Begin (Revenue Requirement)	4/18/2011
310	Hearings End (Revenue Requirement)	5/9/2011
340	Initial Briefs Filed	6/6/2011
350	Reply Briefs Filed	6/16/2011
	One Day Hearing on Rate Design	TBD
	Initial Briefs Filed (Rate Design)	TBD
	Reply Briefs Filed (Rate Design)	TBD
460	ALJ's Proposed Decision Filed	10/4/2011
480	Comments on Proposed Decision	10/24/2011
485	Replies to Comments	10/31/2011
500	Commission Decision	11/17/2011

VI. CONCLUSION

Cal Am's Application requests a substantial rate increase, far in excess of the rate of inflation. DRA will conduct discovery to develop its testimony and recommendations. Hearings may be required and a schedule should be established at the prehearing conference that allows for a diligent review of the requested rate increases. Since DRA has not completed discovery or filed its report, it reserves the right to assert any issue discovered after this Protest has been filed.

Respectfully submitted,

/s/ DARRYL J. GRUEN

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August 9, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES TO THE APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE REVENUES IN ALL OF ITS CALIFORNIA DISTRICTS** to the official service list in **A.10-07-007** by using the following service:

☒ **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

☐ **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **August 9, 2010** at San Francisco, California.

/s/ ALBERT HILL
ALBERT HILL

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